

**REPORT OF THE AUDIT OF THE  
MUHLENBERG COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Rodney Kirtley, Muhlenberg County Judge/Executive

Members of the Muhlenberg County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Muhlenberg County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**  
**MUHLENBERG COUNTY FISCAL COURT**

**June 30, 2005**

Peercy and Gray, PSC has completed the audit of the Muhlenberg County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information.

**Financial Condition:**

The fiscal court had net assets of \$5,217,593 as of June 30, 2005. The fiscal court had unrestricted net assets of \$ 1,561,136 in its governmental activities as of June 30, 2005, with total net assets of \$5,113,566. In its enterprise fund, total net cash and cash equivalents were \$104,027 with total net assets of \$104,027. The fiscal court had total debt principal as of June 30, 2005 of \$13,390,000 with \$869,000 due within the next year.

**Report Comment:**

- Fiscal Court Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

**Deposits:**

As of June 30, 2005, the fiscal court's deposits were uninsured and uncollateralized by bank securities in the amount of \$2,877.



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## PEERCY AND GRAY, PSC

### Certified Public Accountants

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Rodney Kirtley, Muhlenberg County Judge/Executive

Members of the Muhlenberg County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Muhlenberg County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Muhlenberg County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive  
Members of the Muhlenberg County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muhlenberg County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 7, 2006, on our consideration of Muhlenberg County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based upon the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following comment.

- Fiscal Court Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC  
Certified Public Accountants

Audit fieldwork completed -  
July 7, 2006

MUHLENBERG COUNTY OFFICIALS

For The Year Ended June 30, 2005

**Fiscal Court Members:**

Rodney Kirtley	County Judge/Executive
David James	Magistrate
Harold Wester	Magistrate
Tommy Watkins	Magistrate
Daniel Bowles	Magistrate
Phillip O'Neal	Magistrate

**Other Elected Officials:**

Darris Russell	County Attorney
Willie Justice, Jr.	Jailer
Gaylan Spurlin	County Clerk
Janet Hearld	Circuit Court Clerk
Jerry Mayhugh	Sheriff
Bill Alward	Property Valuation Administrator
Tony Armour	Coroner

**Appointed Personnel:**

Charles R. Lewis	County Treasurer
Linda Moore	Finance Officer

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**MUHLENBERG COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**MUHLENBERG COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,186,136	\$ 104,027	\$ 1,290,163
Assets Held For Resale	375,000		375,000
Total Current Assets	1,561,136	104,027	1,665,163
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	93,838		93,838
Land	1,922,585		1,922,585
Land Improvements	16,508		16,508
Buildings	13,907,094		13,907,094
Vehicles and Equipment	808,188		808,188
Infrastructure	194,217		194,217
Total Noncurrent Assets	16,942,430		16,942,430
Total Assets	18,503,566	104,027	18,607,593
<b>LIABILITIES</b>			
Current Liabilities:			
Short-term Lease	375,000		375,000
Bonds Payable	485,000		485,000
Financing Obligations Payable	9,000		9,000
Total Current Liabilities	869,000		869,000
Noncurrent Liabilities:			
Bonds Payable	12,460,000		12,460,000
Financing Obligations Payable	61,000		61,000
Total Noncurrent Liabilities	12,521,000		12,521,000
Total Liabilities	13,390,000		13,390,000
<b>NET ASSETS</b>			
Invested in Capital Assets,			
Net of Related Debt	3,552,430		3,552,430
Restricted		4,784	4,784
Unrestricted	1,561,136	99,243	1,660,379
Total Net Assets	\$ 5,113,566	\$ 104,027	\$ 5,217,593

The accompanying notes are an integral part of the financial statements.

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**MUHLENBERG COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**MUHLENBERG COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,792,360		\$ 445,622	\$ 423,770
Protection to Persons and Property	2,466,502	35,465	2,905,266	
General Health and Sanitation	656,707	273,195	24,679	
Social Services	61,478			
Recreation and Culture	148,847			
Roads	1,452,452		1,620,994	
Debt Service	629,069			
Capital Projects	45,218			
Total Governmental Activities	9,252,633	308,660	4,996,561	423,770
Business-type Activities:				
Jail Canteen	403,373	449,277		
Total Business-type Activities	403,373	449,277		
Total Primary Government	\$ 9,656,006	\$ 757,937	\$ 4,996,561	\$ 423,770

**General Revenues:**

Taxes:

Real Property Taxes

Motor Vehicle Taxes

In Lieu of Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**MUHLENBERG COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (2,922,968)	\$	\$ (2,922,968)
474,229		474,229
(358,833)		(358,833)
(61,478)		(61,478)
(148,847)		(148,847)
168,542		168,542
(629,069)		(629,069)
(45,218)		(45,218)
(3,523,642)		(3,523,642)
	45,904	45,904
	45,904	45,904
(3,523,642)	45,904	(3,477,738)
965,402		965,402
156,381		156,381
1,469,829		1,469,829
430,633		430,633
1,117,556		1,117,556
410,787		410,787
10,960	295	11,255
4,561,548	295	4,561,843
1,037,906	46,199	1,084,105
4,075,660	57,828	4,133,488
\$ 5,113,566	\$ 104,027	\$ 5,217,593

The accompanying notes are an integral part of the financial statements.

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**MUHLENBERG COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

**MUHLENBERG COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Justice Center Corporation Construction Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 254,403	\$ 191,516	\$ 50,317	\$ 66,463
Total Assets	<u>\$ 254,403</u>	<u>\$ 191,516</u>	<u>\$ 50,317</u>	<u>\$ 66,463</u>
<b>FUND BALANCES</b>				
Unreserved:				
General Fund	\$ 254,403	\$	\$	\$
Special Revenue Funds		191,516	50,317	
Capital Projects Fund				66,463
Debt Service Fund				
Total Fund Balances	<u>\$ 254,403</u>	<u>\$ 191,516</u>	<u>\$ 50,317</u>	<u>\$ 66,463</u>

The accompanying notes are an integral part of the financial statements.

**MUHLENBERG COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2005**  
**(Continued)**

<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 593,291	\$ 1,155,990
<u>\$ 593,291</u>	<u>\$ 1,155,990</u>

\$	\$
593,266	254,403
	835,099
	66,463
25	25
<u>\$ 593,291</u>	<u>\$ 1,155,990</u>

**Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,155,990
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Assets Held For Resale are not Financial Resources and therefore are not reported in the funds.	375,000
Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not reported in the funds.	19,447,313
Accumulated Depreciation	(2,504,883)
Internal Service Fund is used by management to charge the cost of health insurance to individual funds. The assets and liabilities are included in governmental activities on the Statement of Net Assets.	30,146
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due Within One Year - Bonds and Financing Obligations	(869,000)
Due In More Than One Year - Bonds and Financing Obligations	<u>(12,521,000)</u>
Net Assets Of Governmental Activities	<u>\$ 5,113,566</u>

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**MUHLENBERG COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**MUHLENBERG COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
<b>REVENUES</b>			
Taxes	\$ 1,517,685	\$	\$
In Lieu Tax Payments	1,469,829		
Excess Fees	1,117,556		
Licenses and Permits	34,731		
Intergovernmental	405,622	1,310,574	1,489,485
Charges for Services	273,564		35,096
Miscellaneous	310,487	4,168	68,112
Interest	2,284		
Total Revenues	<u>5,131,758</u>	<u>1,314,742</u>	<u>1,592,693</u>
<b>EXPENDITURES</b>			
General Government	1,847,704		
Protection to Persons and Property	458,746		1,730,449
General Health and Sanitation	648,094		
Social Services	44,242		
Recreation and Culture	141,985		
Roads		1,086,323	
Debt Service	19,651		429,725
Capital Projects	190,248	599,988	37,849
Administration	880,279		338,162
Total Expenditures	<u>4,230,949</u>	<u>1,686,311</u>	<u>2,536,185</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>900,809</u>	<u>(371,569)</u>	<u>(943,492)</u>
<b>Other Financing Sources (Uses)</b>			
Financing Obligation Proceeds		375,000	
Transfers From Other Funds	700,000	599,350	957,425
Transfers To Other Funds	(1,524,275)	(600,000)	
Total Other Financing Sources (Uses)	<u>(824,275)</u>	<u>374,350</u>	<u>957,425</u>
Net Change in Fund Balances	76,534	2,781	13,933
Fund Balances - Beginning	177,869	188,735	36,384
Fund Balances - Ending	<u>\$ 254,403</u>	<u>\$ 191,516</u>	<u>\$ 50,317</u>

The accompanying notes are an integral part of the financial statements.

**MUHLENBERG COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Justice Center Corporation Construction Fund</b>	<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$	\$	\$ 1,517,685
		1,469,829
		1,117,556
		34,731
	2,214,650	5,420,331
		308,660
28,020		410,787
3,203	5,473	10,960
31,223	2,220,123	10,290,539
	40,000	1,887,704
	134,500	2,323,695
		648,094
		44,242
		141,985
	310,420	1,396,743
	662,693	1,112,069
730,888	386,204	1,945,177
	594,154	1,812,595
730,888	2,127,971	11,312,304
(699,665)	92,152	(1,021,765)
		375,000
135,267	117,500	2,509,542
	(385,267)	(2,509,542)
135,267	(267,767)	375,000
(564,398)	(175,615)	(646,765)
630,861	768,906	1,802,755
\$ 66,463	\$ 593,291	\$ 1,155,990

The accompanying notes are an integral part of the financial statements.

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**MUHLENBERG COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**MUHLENBERG COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds \$ (646,765)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Purchase of Asset Held for Resale	375,000
Book Value-Disposed Asset	(57,832)
Capital Outlay	1,624,959
Depreciation Expense	(359,347)

Internal Service Funds are used by management to charge the cost of health insurance to individual funds. The net revenues (expenses) of this fund are reported with governmental activities. (6,109)

The issuance of debt provides current financial resources to Governmental Funds while lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.

Short Term Lease Proceeds	(375,000)
Financing Obligations Principal Payments	8,000
Bond Principal Payments	475,000

Change in Net Assets of Governmental Activities	\$ 1,037,906
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**MUHLENBERG COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**



**MUHLENBERG COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**

	<u><b>Business-Type Activities</b></u>	<u><b>Governmental Activities</b></u>
	<u><b>Enterprise Fund</b></u>	<u><b>Internal Service Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>	<u><b>Health Insurance Fund</b></u>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 104,027	\$ 30,146
Total Current Assets	<u>104,027</u>	<u>30,146</u>
<b>Net Assets</b>		
Restricted	\$ 4,784	\$
Unrestricted	99,243	30,146
Total Net Assets	<u><u>\$ 104,027</u></u>	<u><u>\$ 30,146</u></u>

The accompanying notes are an integral part of the financial statements.

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**MUHLENBERG COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**MUHLENBERG COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<u><b>Business-Type Activities</b></u>	<u><b>Governmental Activities</b></u>
	<u><b>Enterprise Fund</b></u>	<u><b>Internal Service Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>	<u><b>Health Insurance Fund</b></u>
<b>Operating Revenues</b>		
Canteen Receipts	\$ 288,567	\$
Inmate Accounts	143,414	
Reimbursements		796,471
Miscellaneous Revenues	259	
Total Operating Revenues	<u>432,240</u>	<u>796,471</u>
<b>Operating Expenses</b>		
Cost of Sales	221,820	
Jail Fees	118,387	
Inmate Accounts	17,797	
Claims		613,638
Administrative		189,198
Other	20,722	
Total Operating Expenses	<u>378,726</u>	<u>802,836</u>
Operating Income (Loss)	<u>53,514</u>	<u>(6,365)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest Income	295	256
Inmate Pay From State	17,037	
Inmate Refunds	(24,647)	
Total Nonoperating Revenues (Expenses)	<u>(7,315)</u>	<u>256</u>
Change In Net Assets	46,199	(6,109)
Total Net Assets - Beginning (restated)	57,828	36,255
Total Net Assets - Ending	<u>\$ 104,027</u>	<u>\$ 30,146</u>

The accompanying notes are an integral part of the financial statements.

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**MUHLENBERG COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**MUHLENBERG COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<u><b>Business-Type Activities</b></u>	<u><b>Governmental Activities</b></u>
	<u><b>Enterprise Fund</b></u>	<u><b>Internal Service Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>	<u><b>Health Insurance Fund</b></u>
<b>Cash Flows From Operating Activities</b>		
Receipts From Customers	\$ 432,240	
Reimbursements		796,471
Cost of Sales	(221,820)	
Jail Fees	(118,387)	
Inmate Account	(17,797)	
Claims		(613,638)
Administrative	(20,722)	(189,198)
Net Cash Provided By		
Operating Activities	<u>53,514</u>	<u>(6,365)</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Inmate Pay From State	17,037	
Inmate Refunds on Accounts	(24,647)	
Net Cash Provided By Noncapital		
Financing Activities	<u>(7,610)</u>	<u>0</u>
<b>Cash Flows From Investing Activities</b>		
Interest Earned	295	256
Net Cash Provided By		
Investing Activities	<u>295</u>	<u>256</u>
Net Increase (Decrease) in Cash and Cash		
Equivalents	46,199	(6,109)
Cash and Cash Equivalents - July 1, 2004	<u>57,828</u>	<u>36,255</u>
Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 104,027</u></u>	<u><u>\$ 30,146</u></u>

The accompanying notes are an integral part of the financial statements.

**MUHLENBERG COUNTY**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005 (Continued)**

	<b>Business-Type Activities</b>	<b>Governmental Activities</b>
	<b>Enterprise Fund</b>	<b>Internal Service Fund</b>
	<b>Jail Canteen Fund</b>	<b>Health Insurance Fund</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>		
Operating Income (Loss)	\$ 53,514	\$ (6,365)
Total Cash Provided (Used) By Operating Activities	\$ 53,514	\$ (6,365)

The accompanying notes are an integral part of the financial statements.

**MUHLENBERG COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**Agency Fund**

# Jail Inmate Account

## Cash and Cash Equivalents

\$ 10

Total Assets

10

### Amounts Held In Custody For Others

10

Total Liabilities

---

10

## Total Net Assets

---

\$
0

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
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**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Muhlenberg County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

**Blended Component Units**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

Muhlenberg County Justice Center Corporation

Fiscal Court has the authority to appoint a voting majority of the Justice Center Corporation's (Corporation) Board of Directors. Fiscal Court also has the ability to approve or modify the Corporation's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the Corporation. In addition, fiscal court is financially accountable for the Corporation, legally entitled to the Corporation's resources as well as legally obligated for the Corporation's debt. Financial information of the Justice Center Corporation is blended within Muhlenberg County's financial statements.

Muhlenberg County Elected Officials

Kentucky law provides for the election of the below officials from the geographic area constituting Muhlenberg County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Muhlenberg County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**C. Government-wide and Fund Financial Statements**

The primary government reports the governmental activities using the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid, except for the recognition of depreciation expense on the statement of activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

The governmental funds are accounted for on the modified cash basis and focus on the flow of current financial resources. Revenues are recognized when received and expenditures are recognized when paid.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Jail Fund** - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Justice Center Corporation Construction Fund - The Justice Center Corporation Construction fund accounts for the activities of the Justice Center Corporation, a blended component unit of the county. The purpose of this fund is to account for the financial resources to be used for the acquisition or construction of major capital facilities. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Development Fund, Local Government Economic Assistance Fund, Rails to Trails Fund, Pennyrile Narcotics Drug Task Force Fund, Paradise Park Fund, and Justice Center Corporation Sinking Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Local Government Economic Development Fund, Rails to Trails Fund, Pennyrile Narcotics Drug Task Force Fund, and Paradise Park Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Capital Projects Fund:**

The Justice Center Corporation Construction Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

**Debt Service Fund:**

The Muhlenberg County Justice Corporation Sinking Fund is presented as a debt service fund. Debt Service Funds are to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Debt Service is provided through annual transfers from the General Fund in the amount of the debt service requirements for the year.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. The jail canteen fund is reported as an enterprise fund.

Health Insurance Fund - This fund accounts for the goods or services provided by one governmental department or agency to another. The Health Insurance Fund of the fiscal court is reported as an internal service fund.

**Fiduciary Funds**

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Jail Inmate Account - This fund accounts for funds received from inmates and held until inmate uses these funds.

Federal Medicaid Fund - The funds accounts for funds received from Medicaid and transferred to the Muhlenberg County Community Hospital. This fund had a \$0 balance as of June 30, 2005.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**E. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 10,000	10-50

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Long-term Obligations**

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**G. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**H. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Muhlenberg County Justice Center Corporation Construction Fund (Capital Projects Fund) and Muhlenberg County Justice Center Corporation Sinking Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payment to and from these funds annually and transfers are budgeted in the Jail Fund to comply with these requirements. The Governor's Office for Local Development does not require these funds to be budgeted.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Joint Ventures**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered joint ventures of the Muhlenberg County Fiscal Court: Paradise Industrial Park and Bluegrass Crossing Industrial Park.

**Note 2. Deposits**

The primary government maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2005, all deposits of the county were not covered by FDIC insurance. The County did not enter into a written agreement with one depository institution, and as of June 30, 2005, the FDIC insurance did not exceed the amount on deposit, leaving \$2,877 of the county's deposits of \$102,877 exposed to custodial credit risk as follows:

- \$2,877 uninsured and unsecured.



**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Restated Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,573,285	\$ 349,300	\$	\$ 1,922,585
Construction In Progress	5,170,725	767,112	(5,843,999)	93,838
Total Capital Assets Not Being Depreciated	6,744,010	1,116,412	(5,843,999)	2,016,423
Capital Assets, Being Depreciated:				
Buildings	8,907,097	5,875,014		14,782,111
Vehicles and Equipment	2,215,857	279,755	(62,750)	2,432,862
Land Improvements	18,140			18,140
Infrastructure		197,777		197,777
Total Capital Assets Being Depreciated	11,141,094	6,352,546	(62,750)	17,430,890
Less Accumulated Depreciation For:				
Buildings	(680,029)	(194,988)		(875,017)
Vehicles and Equipment	(1,469,609)	(159,983)	4,918	(1,624,674)
Land Improvements	(816)	(816)		(1,632)
Infrastructure		(3,560)		(3,560)
Total Accumulated Depreciation	(2,150,454)	(359,347)	4,918	(2,504,883)
Total Capital Assets, Being Depreciated, Net	8,990,640	5,993,199	(57,832)	14,926,007
Governmental Activities Capital Assets, Net	<u>\$ 15,734,650</u>	<u>\$ 7,109,611</u>	<u>\$ (5,901,831)</u>	<u>\$ 16,942,430</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 85,952
Protection to Persons and Property	142,807
General Health and Sanitation	8,613
Social Services	17,236
Recreation and Culture	6,862
Roads	97,877
Total Depreciation Expense - Governmental Activities	<u>\$ 359,347</u>

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 4. Short-term Debt - Promissory Note**

**A. Line of Credit**

In July 2004, Muhlenberg County signed a promissory note with Old National Bank in the amount of \$750,000 at 4.25% interest rate. During the fiscal year, the County borrowed \$750,000 in order to meet current operating expenses. The County repaid \$758,287, which included interest of \$8,287.

**B. Leases - Trucks**

On November 4, 2004, the Muhlenberg County Fiscal Court entered into a one-year lease purchase agreement with the Bank of New York for the purpose of purchasing trucks that would be placed in service for one year and then resold. The principal amount borrowed was \$170,000 with an interest rate of 2.25%. The agreement requires the payment of principal and interest at the end of the one-year lease.

**C. Leases - Trucks**

On January 18, 2005, the Muhlenberg County Fiscal Court entered into a one-year lease purchase agreement with the Bank of New York for the purpose of purchasing trucks that would be placed in service for one year and then resold. The principal amount borrowed was \$205,000 with an interest rate of 3.00%. The agreement requires the payment of principal and interest at the end of the one-year lease.

Changes In Short-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Primary Government</b>				
<u>Governmental Activities</u>				
Line Of Credit	\$ 0	\$ 750,000	\$ 750,000	\$ 0
Leases		375,000		375,000
Governmental Activities				
Short-term Liabilities	\$ 0	\$ 1,125,000	\$ 750,000	\$ 375,000

**Note 5. Long-term Debt - Bonds**

**A. Detention Center**

On January 19, 2000, the Muhlenberg County Fiscal Court issued \$6,895,000 General Obligation Improvement Bonds, Series 2000, for the construction of the Detention Center. These bonds are required to be paid fully within 20 years from the date of issue and are backed by the full faith and credit of the County. The bonds matured as to principal beginning August 1, 2002.

Bonds outstanding as of June 30, 2005 totaled \$6,240,000. Future principal and interest requirements are:

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt - Bonds (Continued)**

**A. Detention Center (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 230,000	\$ 342,098
2007	250,000	328,778
2008	260,000	314,625
2009	280,000	299,640
2010	285,000	283,961
2011-2015	1,685,000	1,155,669
2016-2020	2,190,000	615,720
2021-2022	1,060,000	60,199
Totals	<u>\$ 6,240,000</u>	<u>\$ 3,400,690</u>

**B. Justice Center**

The Muhlenberg County Justice Center Corporation ('The Corporation') issued First Mortgage Revenue Bonds, Series 2002, on December 1, 2002. The purpose of this bond issue is for i) constructing a new judicial center for lease to the Administrative Office of the Courts; ii) capitalizing interest for twelve (12) months; iii) paying in full the outstanding loan between the County and Old National Trust Company; and iv) paying the costs of issuance of the bonds. The issue amount of the bonds was \$6,955,000.

The Corporation entered into a lease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (AOC). The Corporation leases a portion of the Project Site and the Project, along with improvements thereon and to be constructed thereof, to AOC for an initial period from the occupancy date until June 30, 2024, at the agreed and stipulated rentals equal to the AOC use allowance. The maximum use allowance is set at \$556,700 per year. The rental amount is anticipated to be adequate to pay 100% of the net debt service on the bonds. On July 1 of each even numbered year, this lease may be renewed by AOC for another biennial period of two years. Interest on the bonds is payable each March 1 and September 1. The bonds matured as to principal on September 1, 2004 and each September 1 thereafter. The interest rate on the bonds ranges from 1.55% to 4.60%.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt - Bonds (Continued)**

**B. Justice Center (Continued)**

Bonds outstanding as of June 30, 2005 totaled \$6,705,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 255,000	\$ 258,333
2007	260,000	252,920
2008	265,000	246,419
2009	275,000	238,783
2010	280,000	230,108
2011-2015	1,570,000	987,525
2016-2020	1,930,000	637,370
2021-2024	1,870,000	175,000
Totals	<u>\$ 6,705,000</u>	<u>\$ 3,026,458</u>

**Note 6. Long-term Debt - Financing Obligation**

On November 12, 1992, the Muhlenberg County Fiscal Court entered into a 20-year capital lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for construction of waterlines. The principal amount borrowed was \$147,000 with an interest rate of 5.45%. The agreement requires monthly payments of interest and annual payments of principal.

The outstanding balance as of June 30, 2005, was \$70,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 9,000	\$ 4,324
2007	9,000	3,745
2008	9,000	3,149
2009	10,000	2,534
2010	10,000	1,882
2010-2012	23,000	3,160
Totals	<u>\$ 70,000</u>	<u>\$ 18,794</u>

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 6. Long-term Debt - Bonds (Continued)**

**Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
General Obligation Bonds (Note 5)	\$ 13,420,000	\$	\$ 475,000	\$ 12,945,000	\$ 485,000
Financing Obligations	78,000		8,000	70,000	9,000
Governmental Activities					
Long-term Liabilities	<u>\$ 13,498,000</u>	<u>\$ 0</u>	<u>\$ 483,000</u>	<u>\$ 13,015,000</u>	<u>\$ 494,000</u>

**Note 7. Interest On Short-term Debt, Bonds, and Financing Obligation**

Debt Service on the Statement of Activities includes \$8,287 in interest on short-term debt, \$617,417 in interest on bonds and \$3,365 in interest on financing obligation.

**Note 8. Related Party Transactions**

The Pennyriple Narcotics Task Force conducted business with 4<sup>th</sup> And Main Auto Sales, which is owned by Jason Blakely, who is the spouse of Lori Blakely an employee of the Pennyriple Narcotics Task Force. During fiscal year ended June 30, 2005, the Pennyriple Narcotics Task Force paid \$1,293 to 4<sup>th</sup> And Main Auto Sales.

The Muhlenberg County Fiscal Court conducted business with Kirtley's Paint & Fantastic's Sporting Goods, which is owned by the Judge/Executives' brother. During fiscal year ended June 30, 2005, the Muhlenberg County Fiscal Court paid \$248 to Kirtley's Paint & Fantastic's Sporting Goods.

**Note 9. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan benefits. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 9. Employee Retirement System (Continued)**

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 10. Self Insurance**

Muhlenberg County Fiscal Court elected to begin a partially self-funded health insurance plan as of May 1, 2003. This partially self-funded insurance plan covers all full-time employees. County employees are required to contribute \$15 per month and the County pays for the remainder of the County employee's individual coverage. As of May 1, 2004, County employees were required to choose between a \$750 and \$500 deductible and County employee contributions were \$15 or \$50 per month, respectively. The County also pays for one-half the cost for family coverage.

This partially self-funded insurance plan has two distinct components that the Fiscal Court must pay. The first component is fixed cost, which consists of administrative fees associated with operating of the plan and specific and aggregate reinsurance costs that cap the County's claims exposure on an individual and aggregate basis. Fixed costs for the fiscal year ending June 30, 2005 were \$189,198. The second component is claims cost. Muhlenberg County is responsible to pay all claims as they incur. Once an individual exceeds \$40,000 in claims or the County's aggregate claims exceed the predetermined maximum, then the County will receive reimbursements from the carrier. Claims for the fiscal year ended June 30, 2005 were \$613,638. Muhlenberg County Fiscal Court's contract with HCC Life Insurance has a terminal liability provision; this policy expired as of April 30, 2004. Beginning May 1, 2004, the Fiscal Court's contract is with United Healthcare Insurance Company and there is not a terminal liability provision. The Health Insurance Fund had a balance of \$30,146 as of June 30, 2005.

**Note 11. Prior Period Adjustments**

The Beginning Net Assets of the Governmental Activities has been increased in the amount of \$50,000 due to the historical cost of a backhoe purchased in a prior year not including the trade-in value of equipment traded and by \$36,255 due to the Health Insurance Fund previously not recorded as an Internal Service Fund. The Beginning Net Assets of the Business-type Activities has been increased by \$564 due to the petty cash previously not recorded.

**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**





**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,473,300	\$ 1,473,300	\$ 1,517,685	\$ 44,385
In Lieu Tax Payments	1,425,000	1,425,000	1,469,829	44,829
Excess Fees	937,565	937,565	1,117,556	179,991
Licenses and Permits	35,000	35,000	34,731	(269)
Intergovernmental Revenue	443,030	443,030	405,622	(37,408)
Charges for Services	262,500	262,500	273,564	11,064
Miscellaneous	261,500	261,500	310,487	48,987
Interest	3,500	3,500	2,284	(1,216)
Total Revenues	<u>\$ 4,841,395</u>	<u>\$ 4,841,395</u>	<u>\$ 5,131,758</u>	<u>\$ 290,363</u>
<b>EXPENDITURES</b>				
General Government	1,946,870	1,911,320	1,854,941	56,379
Protection to Persons and Property	538,670	606,770	598,910	7,860
General Health and Sanitation	641,350	692,150	688,571	3,579
Social Services	42,500	45,000	44,242	758
Recreation and Culture	146,950	146,950	141,985	4,965
Debt Service	1,018,830	775,480	769,651	5,829
Capital Projects	50,000	3,000	2,370	630
Administration	1,007,450	948,450	880,279	68,171
Total Expenditures	<u>\$ 5,392,620</u>	<u>\$ 5,129,120</u>	<u>\$ 4,980,949</u>	<u>\$ 148,171</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(551,225)</u>	<u>(287,725)</u>	<u>150,809</u>	<u>438,534</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Borrowed Money	1,000,000	1,000,000	750,000	(250,000)
Transfers From Other Funds			700,000	700,000
Transfers To Other Funds	(581,775)	(581,775)	(1,524,275)	(942,500)
Total Other Financing Sources (Uses)	<u>\$ 418,225</u>	<u>\$ 418,225</u>	<u>\$ (74,275)</u>	<u>\$ (492,500)</u>
Net Changes in Fund Balance	(133,000)	130,500	76,534	(53,966)
Fund Balance - Beginning	<u>133,000</u>	<u>133,000</u>	<u>177,869</u>	<u>44,869</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 263,500</u>	<u>\$ 254,403</u>	<u>\$ (9,097)</u>

**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005 (Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,127,300	\$ 1,127,300	\$ 1,310,574	\$ 183,274
Miscellaneous	10,000	10,000	4,168	(5,832)
Interest	1,000	1,000		(1,000)
Total Revenues	<u>\$ 1,138,300</u>	<u>\$ 1,138,300</u>	<u>\$ 1,314,742</u>	<u>\$ 176,442</u>
<b>EXPENDITURES</b>				
Roads	\$ 1,237,650	\$ 1,325,650	\$ 1,311,311	\$ 14,339
Total Expenditures	<u>\$ 1,237,650</u>	<u>\$ 1,325,650</u>	<u>\$ 1,311,311</u>	<u>\$ 14,339</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(99,350)</u>	<u>(187,350)</u>	<u>3,431</u>	<u>190,781</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	49,350	49,350	599,350	550,000
Transfers To Other Funds			(600,000)	(600,000)
Total Other Financing Sources (Uses)	<u>49,350</u>	<u>49,350</u>	<u>(650)</u>	<u>(50,000)</u>
Net Changes in Fund Balance	(50,000)	(138,000)	2,781	140,781
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>188,735</u>	<u>138,735</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (88,000)</u>	<u>\$ 191,516</u>	<u>\$ 279,516</u>

**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005 (Continued)**

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,592,500	\$ 1,592,500	\$ 1,489,485	\$ (103,015)
Charges for Services	40,000	40,000	35,096	(4,904)
Miscellaneous	59,500	59,500	68,112	8,612
Total Revenues	\$ 1,692,000	\$ 1,692,000	\$ 1,592,693	\$ (99,307)
EXPENDITURES				
Protection to Persons and Property	\$ 1,602,200	\$ 1,781,800	\$ 1,768,298	\$ 13,502
Debt Service	279,725	429,725	429,725	
Administration	342,500	338,400	338,162	238
Total Expenditures	\$ 2,224,425	\$ 2,549,925	\$ 2,536,185	\$ 13,740
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	(532,425)	(857,925)	(943,492)	(85,567)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	532,425	532,425	957,425	425,000
Total Other Financing Sources (Uses)	532,425	532,425	957,425	425,000
Net Changes in Fund Balance		(325,500)	13,933	339,433
Fund Balance - Beginning			36,384	36,384
Fund Balance - Ending	\$ 0	\$ (325,500)	\$ 50,317	\$ 375,817

**MUHLENBERG COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

1. Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation to the General Fund:

Total Expenditures-Budgetary Basis	\$ 4,980,949
Short-term Borrowings for Operating Expenses	(750,000)
Total Expenditures-Modified Cash Basis	<u>\$ 4,230,949</u>

Other Financing Sources (Uses)-Budgetary Basis	\$ (74,275)
Short-term Borrowings for Operating Expenses	(750,000)
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ (824,275)</u>

3. Reconciliation to the Road Fund:

Total Expenditures-Budgetary Basis	\$ 1,311,311
Short-term Borrowings for Assets Held For Resale	375,000
Total Expenditures-Modified Cash Basis	<u>\$ 1,686,311</u>

Other Financing Sources (Uses)-Budgetary Basis	\$ (650)
Short-term Borrowings for Assets Held For Resale	375,000
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 374,350</u>

**MUHLENBERG COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2005**

**MUHLENBERG COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**

	<b>Local Government Economic Assistance Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Rails to Trails Fund</b>	<b>Pennyrile Narcotics Drug Task Force Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 122,627	\$ 372,863	\$ 93,079	\$ 4,639
Total Assets	<u>\$ 122,627</u>	<u>\$ 372,863</u>	<u>\$ 93,079</u>	<u>\$ 4,639</u>
<b>FUND BALANCES</b>				
Unreserved:				
Special Revenue Funds	\$ 122,627	\$ 372,863	\$ 93,079	\$ 4,639
Debt Service Fund				
Total Fund Balances	<u>\$ 122,627</u>	<u>\$ 372,863</u>	<u>\$ 93,079</u>	<u>\$ 4,639</u>

**MUHLENBERG COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**June 30, 2005**  
**(Continued)**

<b>Paradise Park Fund</b>	<b>Justice Center Corporation Sinking Fund</b>	<b>Total Non-Major Governmental Funds</b>
<u>\$ 58</u>	<u>\$ 25</u>	<u>\$ 593,291</u>
<u><u>\$ 58</u></u>	<u><u>\$ 25</u></u>	<u><u>\$ 593,291</u></u>
<u>\$ 58</u>	<u>\$ 25</u>	<u>\$ 593,266</u>
<u><u>\$ 58</u></u>	<u><u>\$ 25</u></u>	<u><u>\$ 593,291</u></u>

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**MUHLENBERG COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**

**MUHLENBERG COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

	<b>Local Government Economic Assistance Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Rails to Trails Fund</b>	<b>Pennyrile Narcotics Drug Task Force Fund</b>
<b>REVENUES</b>				
Intergovernmental	\$ 750,000	\$ 423,770	\$	\$ 501,508
Interest	744	2,975		150
Total Revenues	<u>750,744</u>	<u>426,745</u>	<u></u>	<u>501,658</u>
<b>EXPENDITURES</b>				
General Government	40,000			
Protection to Persons and Property	134,500			
Roads	310,420			
Debt Service	150,000			
Capital Projects		360,902	681	
Administration				594,154
Total Expenditures	<u>634,920</u>	<u>360,902</u>	<u>681</u>	<u>594,154</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>115,824</u>	<u>65,843</u>	<u>(681)</u>	<u>(92,496)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(150,000)			(100,000)
Transfers From Other Funds				117,500
Total Other Financing Sources (Uses)	<u>(150,000)</u>	<u></u>	<u></u>	<u>17,500</u>
Net Change in Fund Balances	(34,176)	65,843	(681)	(74,996)
Fund Balances - Beginning	156,803	307,020	93,760	79,635
Fund Balances - Ending	<u>\$ 122,627</u>	<u>\$ 372,863</u>	<u>\$ 93,079</u>	<u>\$ 4,639</u>

**MUHLENBERG COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Paradise Park Fund</b>	<b>Justice Center Corporation Sinking Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 24,679	\$ 514,693	\$ 2,214,650
	1,604	5,473
<u>24,679</u>	<u>516,297</u>	<u>2,220,123</u>
		40,000
		134,500
		310,420
	512,693	662,693
24,621		386,204
		594,154
<u>24,621</u>	<u>512,693</u>	<u>2,127,971</u>
<u>58</u>	<u>3,604</u>	<u>92,152</u>
	(135,267)	(385,267)
		117,500
	<u>(135,267)</u>	<u>(267,767)</u>
58	(131,663)	(175,615)
	131,688	768,906
<u>\$ 58</u>	<u>\$ 25</u>	<u>\$ 593,291</u>

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**MUHLENBERG COUNTY  
COMMENT AND RECOMMENDATION**

**For The Year Ended June 30, 2005**



**MUHLENBERG COUNTY  
COMMENT AND RECOMMENDATION**

**Fiscal Year Ended June 30, 2005**

Current Year Comment:

Fiscal Court Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On June 30, 2005, \$2,877 of the County's deposits of public funds were uninsured and unsecured in one depository institution. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The County should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times and this should be evidenced by a written agreement between the County and the depository institution. We recommend the County require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits at all times and enter into a written agreement with the depository institution to secure the County's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Judge/Executive Rodney Kirtley's Response: The Jail has a new collateral pledge dated June 19, 2006.*

Prior Year Comments:

None

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





## **PEERCY AND GRAY, PSC**

### **Certified Public Accountants**

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Rodney Kirtley, Muhlenberg County Judge/Executive  
Members of the Muhlenberg County Fiscal Court

#### **Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 7, 2006. Muhlenberg County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Muhlenberg County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### **Compliance and Other Matters**

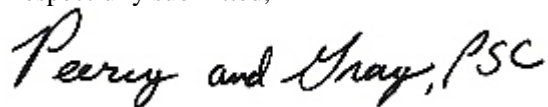
As part of obtaining reasonable assurance about whether Muhlenberg County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of material noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation:

- Fiscal Court Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Report On Internal Control Over Financial Reporting  
And Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office of Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC  
Certified Public Accountants

Audit fieldwork completed -  
July 7, 2006

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**MUHLENBERG COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

MUHLENBERG COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Muhlenberg County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in dark ink, appearing to read "Rodney Kirtley", written over a horizontal line.

Rodney Kirtley  
County Judge/Executive

A handwritten signature in dark ink, appearing to read "Charles R. Lewis", written over a horizontal line.

Charles R. Lewis  
County Treasurer